

Message Text

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PAGE 01 PARIS 12302 042029 Z

43

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-02 DODE-00 PA-03 USIA-12 PRS-01 FS-01 ABF-01

RSR-01 /158 W

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R 041826 Z MAY 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 9825

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

USMISSION EC BRUSSELS

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DEPT PASS TREASURY AND FRB

E. O. 11652: N/ A

TAGS: EFIN, FR

SUBJECT: VIEWS OF FRENCH FINANCE MINISTER ON MONETARY SITUATION

1. MY INITIAL CALL ON VALERY GISCARD D'ESTAING, MINISTER OF FINANCE AND ECONOMIC AFFAIRS, PROVIDED OPPORTUNITY FOR A USEFUL EXCHANGE OF VIEWS ON MONETARY AND TRADE QUESTIONS. THIS MESSAGE REPORTS CONVERSATION ON MONETARY QUESTIONS. A SECOND MESSAGE WILL REPORT DISCUSSION ON TRADE TALKS.

2. I ASKED GISCARD HOW HE FELT ABOUT PROGRESS IN THE C-20 TALKS. GISCARD REPLIED THAT HE WAS DISAPPOINTED AT THE RATE OF PROGRESS TO DATE. FOR ONE THING, TOO MANY PEOPLE WERE INVOLVED. MOREOVER, HE HAS THE FEELING THAT THE U. S. HAS NOT YET FORMULATED

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PAGE 02 PARIS 12302 042029 Z

ITS FINAL POSITION AND THAT THERE CONTINUE TO BE DIVERGENCES WITHIN USG. ELEMENTS OF TREASURY, FOR EXAMPLE, SEEM TO FAVOR A SYSTEM OF FLOATING RATES WHILE SECRETARY SHULTZ AND PRESIDENT NIXON, HE THOUGHT, FAVORED A MORE ORGANIZED RATE STRUCTURE. THE RESULT WAS THAT SOMETIMES HE HAD THE FEELING THAT FRANCE AND THE U. S. WERE CLOSE TO AGREEMENT, WHEREAS AT OTHER TIMES THERE APPEARED TO BE SUBSTANTIAL DISAGREEMENT WHICH WAS GIVEN A SUPERFICIAL APPEARANCE OF AGREEMENT BY CLOAK OF GENERALITIES. GISCARD SAID HE WAS PESSIMISTIC ABOUT THE POSSIBILITY OF REACHING OVERALL AGREEMENT BEFORE NAIROBI. HE THOUGHT THAT IT WOULD BE BETTER AT NAIROBI TO CONCENTRATE ON ACHIEVING A MEANINGFUL AGREEMENT ON SECONDARY ISSUES RATHER THAN TO SEEK AN APPEARANCE OF OVERALL AGREEMENT, WHICH IN REALITY CONCEALED FUNDAMENTAL DISAGREEMENT.

3. GISCARD SAID HE THOUGHT THE U. S. ATTITUDE TOWARD MONETARY REFORM WOULD CHANGE WHEN IT RETURNED TO BALANCE OF PAYMENTS EQUILIBRIUM, WHICH HE THOUGHT WOULD HAPPEN IN ABOUT EIGHTEEN MONTHS. WHEN THAT HAPPENED, HE THOUGHT WE WOULD ABANDON OUR FILTRATION WITH FLOATING RATES AND RETURN TO OUR TRADITIONAL POSITION IN FAVOR OF STABLE RATES. I REPLIED THAT I THOUGHT THAT WHATEVER OUR BALANCE OF PAYMENTS SITUATION, THE U. S. WOULD WANT A SIGNIFICANT DEGREE OF FLEXIBILITY IN THE NEW SYSTEM. GISCARD SAID THAT IN THE PAST COUPLE OF YEARS WE HAVE WANTED FLEXIBILITY BECAUSE THIS MEANT REVALUATION OF OTHER CURRENCIES. ONCE WE RESTORED OUR EXTERNAL FINANCIAL POSITION, THE PRESENT SURPLUS COUNTRIES WOULD PROBABLY BE DEFICIT COUNTRIES. IN THOSE CIRCUMSTANCES, FLEXIBILITY WOULD MEAN DEVALUATION OF THE OTHER CURRENCIES, WHICH WE WOULD BE OPPOSED TO.

4. I DEMURRED, SAYING I DID NOT THINK U. S. WANTED TO RETURN TO A SYSTEM WHERE WE HAD TO WAIT UNTIL A CRISIS LIKE THE AUGUST 1971 CRISIS BEFORE THERE COULD BE FUNDAMENTAL MODIFICATION OF THE RATE STRUCTURE. GISCARD REPLIED THAT THE WIDER BANDS AGREED ON AT THE SMITHSONIAN INSTITUTION HAD IN HIS OPINION GIVEN THE SYSTEM ADEQUATE FLEXIBILITY.

5. SPEAKING OF THE PRESENT SITUATION, GISCARD SAID HE THOUGHT THE PRESENT DOLLAR RATE WAS ABOUT RIGHT. IF ANYTHING, THE DOLLAR MIGHT BE SLIGHTLY UNDERVALUED. HE SAID FRANCE HAD BELIEVED SINCE 1969 THAT ABOUT A 20 PERCENT DEVALUATION OF THE LIMITED OFFICIAL USE

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PAGE 03 PARIS 12302 042029 Z

DOLLAR WAS JUSTIFIED. HE SAID THE FRENCH HAD COME TO THIS CONCLUSION IN THE COURSE OF A STUDY OF THE RATE STRUCTURE AT THE TIME OF THE FRENCH DEVALUATION IN AUGUST 1969. HE ADDED THAT THEY HAD NATURALLY NOT ADVERTISED THIS CONCLUSION. EXEMPT FROM AUTOMATIC DECONTROL.
IRWIN

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